

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

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FISCAL IMPACT STATEMENT

LS 6388

BILL NUMBER: HB 1111

NOTE PREPARED: Mar 10, 2020

BILL AMENDED: Feb 20, 2020

SUBJECT: Unemployment.

FIRST AUTHOR: Rep. Leonard

FIRST SPONSOR: Sen. Ruckelshaus

BILL STATUS: Enrolled

FUNDS AFFECTED: **GENERAL**
 X DEDICATED
 X FEDERAL

IMPACT: State & Local

Summary of Legislation: The bill provides a new schedule of rates for calendar years after December 31, 2020. It specifies that Schedule C applies for calendar years 2021 through 2025. It also provides new contribution rates for calendar years after 2020.

Effective Date: July 1, 2020.

Explanation of State Expenditures: *Department of Workforce Development (DWD):* The bill's requirements to shift to a new rate schedule is within the department's routine administrative functions and should be able to be implemented with no additional appropriations, assuming near customary agency staffing and resource levels.

Impact on State as Employer: The impact on the state would be as an employer and is expected to be minimal, because the state is a reimbursable employer for the purposes of unemployment insurance.

Explanation of State Revenues: *Unemployment Insurance Trust Fund (UI Trust Fund):* The bill introduces a new rate schedule for required State Unemployment Tax Act (SUTA) contributions beginning in calendar year 2021. For calendar years 2021 through 2025 the bill keeps employer contribution rates the same as they have been since calendar year 2011. This provision prevents a potential decrease to the rate schedule that is currently projected to occur in FY 2023.

After 2025, the rates will no longer hold at schedule C, but instead will follow the new rate schedule based on the fund ratio. The fund ratio is calculated by dividing the total balance of the trust fund by the total payroll of all subject employers.

Under the new rate schedule, schedule C is the same as schedule E under current law. Under current law, if the fund ratio exceeds 1.0%, the rate schedule will drop from schedule E to schedule F. The trust fund is estimated to reach the 1.0% fund ratio in FY 2022, which would result in a reduction in SUTA tax rates in FY 2023 under current law. The move to schedule F under current law could reduce annual SUTA contributions collected by an estimated \$48 M (11%) in FY 2023. The reduction would be ongoing, depending on the balance in the trust fund. The estimate is based on FY 2019 levels for tax revenue collected by experience level for the UI Trust Fund. The actual difference in SUTA taxes collected will depend on the economy, employer experience accounts, and the trust fund balance at that time.

Additional Information - Federal guidelines recommend that states maintain a UI Trust Fund balance greater than the average of the three highest Benefit Cost Rates in the last twenty years. For Indiana, that means achieving a balance in the Trust Fund at or above approximately \$1.8 B (above 1.48% of total payroll in the state). The balance in the UI Trust Fund at the end of FY 2019 was \$895 M. For 2019 and beyond, states need to meet the federal recommendations for solvency in order for state UI Trust Funds to be able to borrow federal money interest free between January 1 and September 30 of the same year. Under the rate schedule in current law, DWD estimates that the balance in Indiana's UI Trust Fund would likely peak around \$1.2 B, falling short of the \$1.8 B balance that would meet federal solvency recommendations.

Explanation of Local Expenditures: The impact on local units would be as employers.

Explanation of Local Revenues:

State Agencies Affected: Department of Workforce Development.

Local Agencies Affected: All.

Information Sources: Department of Workforce Development. *Unemployment Insurance Employer Handbook*, https://www.in.gov/dwd/files/Employer_Handbook.pdf;
Department of Workforce Development, Testimony on the status of the UI Trust Fund before the Interim Study Committee on Employment and Labor, October 2, 2019, <https://iga.in.gov/documents/adb82901>;
U.S. Department of Labor, <https://oui.doleta.gov/unemploy/DataDownloads.asp>
U.S. Department of Labor. *State Unemployment Insurance Trust Fund Solvency Report 2019*, <https://oui.doleta.gov/unemploy/docs/trustFundSolvReport2019.pdf>.

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